The Great-West Life
Assurance Company

ANNUAL 2006 REPORT

THE
Great-West Life
ASSURANCE COMPANY

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, possible future Company action, and statements made by the Company with respect to anticipated benefits of the transaction with Putnam Investments Trust, as well as the expected closing of the transaction, are also forward-looking statements.

Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates and taxes, as well as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive. The reader is also cautioned to consider these and other factors carefully and to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include but are not limited to "earnings before restructuring charges", "earnings or sales on a constant currency basis", "currency translation impact" "earnings adjusted for the negative impact of currency", "adjusted net income", "earnings before adjustments" and other similar expressions, as well as "Sources of Earnings". Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Great-West Life, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise indicated.

CORPORATE PROFILE

The Great-West Life Assurance Company (Great-West Life or the Company) is a leading Canadian insurer, with interests in the life insurance, health insurance, investment and retirement savings and reinsurance businesses, primarily in Canada and Europe.

In Canada, Great-West Life and its subsidiaries, London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations. The companies provide a wide range of investment and retirement savings plans, as well as life, disability and critical illness insurance for individuals and families. As a leading provider of employee benefits in Canada, Great-West Life offers effective benefit solutions for large and small employee groups.

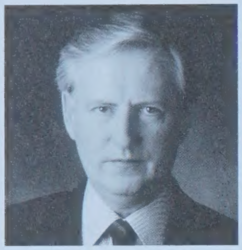
Together, Great-West Life and its subsidiaries serve the financial security needs of more than 12 million people across Canada and have more than $163 billion in assets under administration.

Through Canada Life, the Company has operations in the United Kingdom, Isle of Man, the Republic of Ireland and Germany.

Great-West Life is a wholly-owned subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.

For more information on Great-West Life, including the Company's current ratings, visit our website: www.greatwestlife.com.

Table of Contents



Robert Gratton

Raymond L. McFeetors

Great-West Life and its subsidiaries achieved another strong performance in 2006, driven by solid operating results in all major business segments, carefully managed organic growth in our core markets, and selected acquisitions. Our companies continue to be positioned as leaders in their core markets.

Net income for 2006 grew 19% to $1.6 billion. Net income attributable to the participating accounts of Great-West Life and its subsidiaries, London Life and Canada Life, before policyholder dividends, was $992 million, and policyholder dividends were $860 million. Net income in the participating accounts after policyholder dividends was $132 million.

Total premiums and deposits increased 19% to $28.4 billion in 2006, while fee income grew 20% to $1.5 billion.

Total assets under administration increased 22% to $164 billion. Strong growth in retail investment funds deposits, including segregated funds and mutual funds, resulted in a 23% increase in segregated funds assets. Mutual fund dealer Quadrus Investment Services Ltd., a subsidiary of London Life and an affiliate of Great-West Life, continued to experience strong growth in 2006, with assets under administration growing 56% to $5.2 billion in 2006, while gross sales rose 57% to $1.1 billion. General funds grew 21%, primarily the result of recent payout annuity acquisitions in the United Kingdom.

Our Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio at the end of 2006 was 213%, compared with 208% in 2005, well above minimum regulatory requirements.

Canada

We offer financial security advisors a comprehensive and competitive array of products to help meet the needs of their clients. Great-West Life, together with London Life and Canada Life, remains Canada's number one provider of individual life insurance, in addition to being a leading provider of disability and critical illness insurance and investment funds for Canadians and their families.

Business conducted under the Great-West Life brand grew markedly in 2006. Great-West Life's individual life insurance sales grew more than 24% during the year, far exceeding the industry growth rate. We also work to deliver solid participating policyholder account dividend performance. Although fixed income investment returns remain low, we are pleased to report that we are maintaining the dividend scale for holders of Great-West Life participating policies for 2007.

We also enhanced our individual investment business by refreshing Great-West Life's segregated funds and adding four new 'fund of funds,' to meet the needs of the retirement income market.

In 2006, we gave individual clients secure online access to their personal investment policy details through Great-West Life's redesigned website. We also enhanced our secure website for advisors.

Building our distribution capacity is an important source of growth for Great-West Life in Canada. In 2006, we expanded our distribution reach in the wealth accumulation market, through continued acquisitions of blocks of mutual fund business across Canada, increasing distribution capacity and assets under administration.

In our Group Insurance business, we have identified three strategic themes designed to help us achieve excellence. Those themes are: innovation in products and services, customer service leadership through skilled staff and technology that sets us apart from our competitors, and process excellence. We took important steps within these areas in 2006.

Canadian employers are increasingly concerned with health and productivity issues – an area where we can offer unique solutions. In 2006, we launched *Health Factors: work-life solutions™*. This innovative approach can help us address the rising costs of benefits in the workplace by helping organizations develop a workplace climate that supports health and wellness. We also initiated a project to enhance the value we offer employers through early and effective management of disability.

In 2006, we embarked on a legacy system renewal in our Group Insurance business. A key element of this renewal will be re-engineering our processes, to ensure they are the most effective possible for customers and our business.

In our capital accumulation business, where we help employers and employees with their group retirement plans, we also introduced product and service enhancements. *Cadence Series Funds™* change their asset mix as the plan member ages and approaches retirement. *Automatic investment rebalancing* is a service designed to help plan members keep their assets aligned with their original investment goals.

Europe

Our European business is concentrated in several key markets in the United Kingdom, Ireland and Germany. Our strategy is to be leaders in our chosen markets, and indeed our European businesses rank among the market leaders in the markets in which we do business – individual and group insurance and wealth management.

In 2006, earnings growth reflected the positive impact of payout annuity business acquisitions in the United Kingdom in 2005 and 2006, growth in our wealth management business in the United Kingdom, and improved results in reinsurance.

In 2006, we reached an agreement with The Equitable Life Assurance Society to acquire the assets and liabilities associated with Equitable's not-for-profit pension annuity business – a major step forward in the continued expansion of our presence in this important market segment. The transaction closed in February 2007.

Leveraging our extensive experience in North American group insurance and wealth management continues to benefit our European operations, and our strategy to grow this business in a cost-effective, disciplined manner is gaining momentum.

New developments on our Board of Directors

At our annual meeting in 2006 four longstanding Directors retired. They were James W. Burns, J. Blair MacAulay, Randall L. Moffat and Gordon F. Osbaldeston. We greatly appreciate their contribution to the Company and its subsidiaries over the years.

The number of Directors was reduced from 21 to 20 members and three new Directors were elected. They are Michael L. Hepher, Dr. Emöke J.E. Szathmáry and Murray J. Taylor.

Recognizing our strength: people

In closing, it is the ongoing efforts of knowledgeable and committed people across our companies that position us for continued success in the markets we serve worldwide. On behalf of our Board of Directors, we recognize their professionalism and continuing dedication to service; and we thank our clients, financial security advisors and shareholders for their continuing support.

Robert Gratton
Chairman of the Board

Raymond L. McFeetors
President and
Chief Executive Officer

FINANCIAL HIGHLIGHTS

(in $ millions except per share amounts)

	2006	2005	% Change
For the years ended December 31			
Premiums:			
Life insurance, guaranteed annuities and insured health products	$ 15,288	$ 13,154	16%
Self-funded premium equivalents (ASO contracts)	2,145	1,955	10%
Segregated funds deposits:			
Individual products	7,959	6,046	32%
Group products	3,008	2,682	12%
Total premiums and deposits	28,400	23,837	19%
Fee and other income	1,508	1,257	20%
Paid or credited to policyholders	16,456	13,989	18%
Summary of net income attributable to:			
Participating account (1)	132	94	40%
Perpetual preferred shareholder	11	11	–
Common shareholder before adjustments (1)	1,559	1,373	14%
Adjustments after tax (1)	–	60	–
Common shareholder	1,559	1,313	19%
Per Common Share			
Net earnings before adjustments (1)	$ 746.64	$ 661.60	13%
Adjustments after tax (1)	–	28.85	–
Net earnings	746.64	632.75	18%
Dividends paid	237.64	290.00	-18%
Book value	4,827.00	4,173.00	16%
At December 31			
Total assets	$ 92,655	$ 76,641	21%
Segregated funds net assets	71,288	58,150	23%
Total assets under administration	$ 163,943	$ 134,791	22%
Participating account surplus	$ 1,680	$ 1,548	9%
Shareholder equity	10,291	8,927	15%
Total participating account surplus and shareholder equity	$ 11,971	$ 10,475	14%

1. Net income and net earnings per common share are presented before the following adjustments as a non-GAAP financial measure of earnings performance:
   (a) Following the acquisition of Canada Life Financial Corporation (CLFC) by the Company's parent, Great-West Lifeco Inc., a plan was developed to restructure and exit selected operations of CLFC. Shareholder net income for the year ended December 31, 2005 includes restructuring costs related to the acquisition of CLFC of $17 after tax, or $7.98 per common share.
   (b) 2005 results include a charge of $43 after tax, or $20.87 per common share, in the shareholder account and $5 after tax in the participating account related to a provision for expected losses arising from hurricane damage in 2005.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada. The consolidated financial statements were approved by the Board of Directors which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of non-management directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to the *Insurance Companies Act* (Canada), appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.
- Annually analyzes the financial condition of the Company and prepares a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the Company, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders and Shareholders is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with Canadian generally accepted accounting principles.

Raymond L. McFeetors
President and
Chief Executive Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

February 15, 2007

SUMMARY OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2006	2005
Income		
Premium income	$ 15,288	$ 13,154
Net investment income (note 3)	4,534	3,991
Fee and other income	1,508	1,257
	21,330	18,402
Benefits and expenses		
Policyholder benefits	12,080	10,801
Increase in actuarial liabilities	3,475	2,541
Policyholder dividends and experience refunds	901	647
Total paid or credited to policyholders	16,456	13,989
Commissions	1,139	1,063
Operating expenses	1,332	1,281
Premium taxes	213	198
Financing charges (note 8)	78	83
Amortization of finite life intangible assets	18	18
Restructuring costs (note 2)	–	22
Net operating income before income taxes	2,094	1,748
Income taxes – current	397	273
– future	(12)	50
Net income before non-controlling interests	1,709	1,425
Non-controlling interests	7	7
Net income	1,702	1,418
Net income – participating account (note 13)	132	94
Net income – shareholders	1,570	1,324
Preferred share dividends	11	11
Net income – common shareholder	$ 1,559	$ 1,313
Earnings per common share	$ 746.64	$ 632.75

CONSOLIDATED BALANCE SHEETS

(in $ millions)

December 31	2006	2005
Assets		
Bonds (note 3)	$ 45,803	$ 41,965
Mortgage loans (note 3)	13,735	12,875
Stocks (note 3)	4,335	3,415
Real estate (note 3)	2,069	1,694
Loans to policyholders	2,333	2,298
Cash and cash equivalents	2,945	2,779
Funds held by ceding insurers	12,371	2,556
Goodwill (note 5)	5,250	5,248
Intangible assets (note 5)	1,467	1,453
Other assets (note 6)	2,347	2,358
General funds assets	$ 92,655	$ 76,641
Segregated funds net assets	$ 71,288	$ 58,150
Liabilities		
Policy liabilities		
Actuarial liabilities (note 7)	$ 67,422	$ 51,399
Provision for claims	1,030	822
Provision for policyholder dividends	483	452
Provision for experience rating refunds	318	308
Policyholder funds	1,884	1,779
	71,137	54,760
Debentures and other debt instruments (note 9)	514	786
Funds held under reinsurance contracts	2,520	4,281
Other liabilities (note 10)	2,954	2,985
Repurchase agreements	104	148
Deferred net realized gains (note 3)	2,655	2,401
	79,884	65,361
Capital trust securities and debentures (note 12)	646	648
Non-controlling interests (note 11)		
Perpetual preferred shares issued by subsidiary	154	157
Participating account surplus and shareholder equity		
Participating account surplus (note 13)		
Accumulated surplus	1,696	1,564
Currency translation account	(16)	(16)
Share capital (note 14)		
Preferred shares	210	210
Common shares	6,116	6,116
Shareholder surplus		
Accumulated surplus	3,939	2,877
Contributed surplus	193	186
Currency translation account	(167)	(462)
	11,971	10,475
General funds liabilities, participating account surplus and shareholder equity	$ 92,655	$ 76,641
Segregated funds	$ 71,288	$ 58,150

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2006	2005
Participating account surplus		
Accumulated surplus		
Balance, beginning of year	$ 1,564	$ 1,472
Net income	132	94
Repatriation of Canada Life seed capital from participating account (note 13)	–	(2)
Balance, end of year	$ 1,696	$ 1,564
Currency translation account		
Balance, beginning of year	$ (16)	$ (14)
Changed during the year	–	(2)
Balance, end of year	$ (16)	$ (16)
Shareholder surplus		
Accumulated surplus		
Balance, beginning of year	$ 2,877	$ 2,184
Net income	1,570	1,324
Preferred share cancellation excess in subsidiary (note 11)	–	(21)
Repatriation of Canada Life seed capital from participating account (note 13)	–	2
Dividends to shareholders		
Perpetual preferred shareholders	(11)	(11)
Common shareholder	(497)	(601)
Balance, end of year	$ 3,939	$ 2,877
Contributed surplus		
Balance, beginning of year	$ 186	$ 182
Stock option expense (note 15)	7	4
Balance, end of year	$ 193	$ 186
Currency translation account		
Balance, beginning of year	$ (462)	$ (109)
Changed during the year	295	(353)
Balance, end of year	$ (167)	$ (462)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2006	2005
Operations		
Net income	$ 1,702	$ 1,418
Adjustments:		
Change in policy liabilities	1,685	2,343
Change in funds held by ceding insurers	386	(219)
Change in funds held under reinsurance contracts	(85)	(739)
Change in current income taxes payable	(149)	51
Future income tax expense	(12)	50
Other	70	(15)
Cash flows from operations	3,597	2,889
Financing Activities		
Issue of common shares to parent	–	221
Purchased and cancelled preferred shares of subsidiary	–	(221)
Repayment of debentures and other debt instruments	(264)	(7)
Dividends paid	(508)	(612)
	(772)	(619)
Investment Activities		
Bond sales and maturities	21,757	17,948
Mortgage loan repayments	1,781	1,750
Stock sales	1,097	1,206
Real estate sales	180	193
Change in loans to policyholders	(30)	(70)
Acquisition of business (note 20)	–	22
Investment in bonds	(22,897)	(17,815)
Investment in mortgage loans	(2,552)	(2,232)
Investment in stocks	(1,649)	(1,846)
Investment in real estate	(627)	(587)
	(2,940)	(1,431)
Effect of changes in exchange rates on cash and cash equivalents	281	(282)
Increase in cash and cash equivalents	166	557
Cash and cash equivalents, beginning of year	2,779	2,222
Cash and cash equivalents, end of year	$ 2,945	$ 2,779
Supplementary cash flow information		
Income taxes paid	$ 509	$ 324
Interest paid	$ 92	$ 98

SEGREGATED FUNDS – CONSOLIDATED NET ASSETS

(in $ millions)

December 31	2006	2005
Bonds	$ 9,160	$ 8,004
Mortgage loans	1,915	1,842
Stocks	50,887	41,258
Real estate	5,941	4,180
Cash and certificates of deposit	4,218	3,579
Income due and accrued	217	191
Other assets (liabilities)	(1,050)	(904)
	$ 71,288	$ 58,150

SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in $ millions)

For the years ended December 31	2006	2005
Segregated funds net assets, beginning of year	$ 58,150	$ 52,214
Additions (deductions):		
Policyholder deposits	10,967	8,728
Net investment income	1,643	1,292
Net realized capital gains (losses) on investments	2,422	1,997
Net unrealized capital gains (losses) on investments	1,819	3,034
Unrealized gains (losses) due to change in foreign exchange rates	2,971	(2,898)
Policyholder withdrawals	(6,800)	(6,323)
Net transfer from General Fund	116	106
	13,138	5,936
Segregated funds net assets, end of year	$ 71,288	$ 58,150

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of The Great-West Life Assurance Company (Great-West Life or the Company) include the accounts of its subsidiary companies and have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act, which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of OSFI. The principal subsidiaries at December 31, 2006 are:

London Insurance Group Inc. (LIG)
Canada Life Financial Corporation (CLFC)
GWL Investment Management Ltd. (GWLIM)
GWL Realty Advisors Inc.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of actuarial liabilities, income taxes and pension plans and other post retirement benefits are the most significant components of the Company's financial statements subject to management estimates. Actual results could differ from those estimates. The significant accounting policies are as follows:

(a) Portfolio Investments

Investments in bonds and mortgage loans (debt securities) are carried at amortized cost net of any allowance for credit losses. The difference between the proceeds on the sale of a debt security and its amortized cost is considered to be an adjustment of future portfolio yield. Net realized gains and losses are included in Deferred Net Realized Gains and are deferred and amortized over the period to maturity of the security sold.

Investments in stocks (equity securities) are carried at cost plus a moving average market value adjustment of $397 ($287 in 2005). The carrying value is adjusted towards market value at a rate of 5% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains and are deferred and amortized to income at a rate of 5% per quarter on a declining-balance basis (see note 1(r)).

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $183 ($150 in 2005). The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains and are deferred and amortized to income at a rate of 3% per quarter on a declining-balance basis (see note 1(r)).

Market values for publicly traded bonds are determined using quoted market prices. Market values for bonds that are not actively traded and for mortgages are determined by discounting expected future cash flows related to the securities at market interest rates. Market values for public stocks are generally determined by the closing sale price of the security on the exchange where it is principally traded. Market values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where future cash flows cannot be readily determined, market value is estimated to be equal to cost. Market values for all properties are determined annually by management based on a combination of the most recent independent appraisal and current market data available. Appraisals of all properties are conducted at least once every three years by independent qualified appraisers.

(b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, current operating accounts, overnight bank and term deposits with original maturity of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities.

(c) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. Policy guidelines prohibit the use of derivative instruments for speculative purposes.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

Derivative financial instruments used by the Company are summarized in note 19.

The accounting policies for derivative financial instruments used for hedging correspond to those used for the underlying hedged position. In the event a designated hedged item is sold, extinguished, matures or ceases to be effective prior to the termination of the related derivative instrument, any subsequent realized or unrealized gains or losses on such derivative instruments are recognized in income.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(d) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. The Currency Translation Account is presented separately on the Consolidated Balance Sheets. The Company may enter into certain daily average rate forward exchange contracts to manage volatility associated with the translation of a portion of revenues and investment in foreign operations into Canadian dollars. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(e) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies.

(f) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(g) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company. Finite life intangible assets include the value of customer contracts and distribution channels. These finite life intangible assets are amortized on a straight-line basis over 20 years and 30 years respectively. The Company tests goodwill and intangible assets for impairment on an annual basis by reviewing the fair value of the related businesses and intangible assets. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

(h) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned and primarily includes fees earned from the management of segregated fund assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from investment management services.

(i) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summary of Consolidated Operations is $48 ($48 in 2005).

(j) Actuarial Liabilities

Actuarial liabilities represent the amounts equal to the carrying value of the assets that, taking into account the other pertinent items on the balance sheet, will be sufficient to discharge the Company's obligations over the term of the liability for its insurance policies and to pay expenses related to the administration of those policies. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. In accordance with these accepted practices, actuarial liabilities have been determined in accordance with the Canadian Asset Liability Method (CALM). Actuarial liabilities of the Company are discussed in note 7.

(k) Participating Account

The shareholder portion of participating earnings represents, as restricted by law, a portion of net income before policyholder dividends of the participating account, $46 in 2006 ($40 in 2005). The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. $43 of shareholder surplus ($39 in 2005) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

The Canada Life Assurance Company (Canada Life) participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net income.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, $50 of seed capital was transferred from shareholder surplus to the participating account. Subject to approval by OSFI, the seed capital amount, together with a reasonable rate of return, may be

transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. $23 of seed capital has been repaid to date.

(l) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 18).

(m) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(n) Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain of its employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain of its employees and advisors. The cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 16).

The Company and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependants. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 16).

(o) Stock Based Compensation

Great-West Lifeco Inc. (Lifeco), the Company's parent, has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates, which is described in note 15. The Company follows the fair value method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan. Compensation expense is recognized as an increase to compensation expense and an increase to contributed surplus over the vesting period of granted options.

(p) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding of 2,088,655 (2,074,385 in 2005).

(q) Geographic Segmentation

The Company has significant operations in Canada, the United States and Europe. Reinsurance operations and operations in all countries other than Canada are reported as part of the Europe/Reinsurance segment.

(r) New Accounting Requirements

Financial Instruments

Effective January 1, 2007, the Company will be required to comply with the new provisions of the Canadian Institute of Chartered Accountants (CICA) Handbook on accounting for Financial Instruments. The new sections on Financial Instruments, Hedges and Comprehensive Income, including revisions to the section on Life Insurance Enterprises and many other sections, replace all previous guidance on these items issued by the CICA.

On June 22, 2006, The Office of the Superintendent of Financial Institutions Canada issued Guideline D-10 – Accounting for Financial Instruments Designated as “Held for Trading” (Fair Value Option) (OSFI D-10), which provides additional guidance to certain federally regulated financial institutions, including life insurance companies.

Under the new guidance, all financial assets, including derivatives, must be classified as available for sale, held for trading, held to maturity, or loans and receivables. All financial liabilities, including derivatives, must be classified as held for trading or other. All financial instruments classified as available for sale or held for trading are required to be recognized at fair value on the Consolidated Balance Sheet while financial instruments classified as loans and receivables or other will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading. This option has been limited by the requirements of OSFI D-10.

Changes in the fair value of financial instruments classified as held for trading will be reported in net income. Unrealized gains or losses on financial instruments classified as available for sale will be reported in Other Comprehensive Income until they are realized by the Company.

The new guidance introduces the concept of Other Comprehensive Income. Unrealized gains and losses experienced by the Company on certain investments and derivative instruments, and the currency translation account movement will be recognized in Other Comprehensive Income. Other Comprehensive Income together with Net Income provides the financial statement reader with Comprehensive Income. Comprehensive Income is the total of all realized and unrealized income, expenses, gains and losses related to the Consolidated Balance Sheet including currency translation gains and losses on foreign subsidiary operations.

The Company will measure certain investments, primarily investments actively traded in a public market, and certain financial liabilities at their fair value. Investments backing actuarial liabilities will be classified as held for trading using the fair value option. Changes in the fair value of these investments will flow through net income. This impact is expected to be largely offset by

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

corresponding changes in the actuarial liabilities which will also flow through net income. Investments backing shareholder capital and surplus will be classified as available for sale. Unrealized gains and losses on these investments will flow through Other Comprehensive Income until they are realized. Certain investment portfolios will be classified as held for trading as a reflection of their underlying nature. Changes in the fair value of these investments will flow through net income. No change to the Company's method of accounting for real estate or loans is anticipated.

Derivative instruments, previously off-balance sheet, will be recognized at their market value in the Consolidated Balance Sheet (refer to note 19 for details of off-balance sheet derivatives at December 31, 2006). Derivatives embedded in financial instruments, or other contracts, which are not closely related to the host financial instrument, or contract, must be bifurcated and accounted for independently. Changes in the fair value of derivatives will be recognized in net income except for derivatives designated as effective hedges.

Three types of hedging relationships are permitted under the new guidance: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. Changes in fair value hedges are recognized in net income along with the portion of the change in fair value of the hedged item that relates to the risk that was hedged. The effective portion of cash flow hedges, and hedges of net investments in self-sustaining foreign operations, are offset through Other Comprehensive Income until the variability in cash flows being hedged is recognized in net income.

Life insurance enterprises will no longer defer net realized gains on financial instruments (bonds, stocks, and mortgages), nor will they be allowed to carry investments in stocks at cost plus a moving average market value adjustment for unrealized gains and losses. Deferred net realized gains on bonds, stocks, and mortgages, carried on the balance sheet at December 31, 2006, will be transferred to surplus on transition to the new rules. At December 31, 2006, deferred net realized gains totaled $2,655 or $2,472 excluding real estate. Included in this total is $166 of losses realized on bonds, stocks and mortgages that supported shareholder capital and surplus.

The new accounting guidance is expected to contribute to volatility within certain income statement line items, particularly for investment income and actuarial provisions. However, based on the Company's review to this point, it does not expect that the new guidance will result in a material impact on net income, other than as a result of the inability to continue to amortize the balance of net deferred realized unamortized gains on assets supporting shareholder capital and surplus that will exist at the time of transition to the new accounting rules. For the year ended December 31, 2006, the amortization of net realized and unrealized gains was $577 in total. For investments backing actuarial liabilities, the loss of amortization in connection with these assets is expected to be largely offset by corresponding changes in the actuarial liabilities which will also flow through net income. Included in the $577 is $76 of amortization in connection with bonds, stocks and mortgages associated with shareholder capital and surplus which will not be offset by changes to actuarial liabilities.

On October 18, 2006, the CICA issued an exposure draft amending the transitional provisions relating to the new guidance on hedges. The Company will complete its determination of the transition adjustment for hedges once the new transitional guidance is finalized.

(s) Comparative Figures

Certain of the 2005 amounts presented for comparative purposes have been reclassified to conform with the presentation adopted in the current year.

2. Restructuring Costs

The plan to restructure and integrate the operations of CLFC with the operations of Great-West Life and London Life Insurance Company (London Life) was completed at the end of 2005 at a total cost of $439. Restructuring costs related to the acquisition of CLFC incurred for the year ended December 31, 2005 were $101. Of this amount $22 before tax ($17 after tax) was charged to income and $79 was charged against the amount accrued as part of the purchase equation of CLFC. These restructuring costs were related to the elimination of duplicate systems, exiting and consolidating operations and compensation costs.

3. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

		2006		2005	
		Carrying value	Market value	Carrying value	Market value
Bonds	– government	$ 15,593	$ 16,282	$ 15,928	$ 17,163
	– corporate	30,210	31,106	26,037	27,429
		45,803	47,388	41,965	44,592
Mortgage loans	– residential	6,784	6,963	6,599	6,944
	– non-residental	6,951	7,247	6,276	6,606
		13,735	14,210	12,875	13,550
Stocks		4,335	5,128	3,415	4,024
Real estate		2,069	2,512	1,694	1,960
		$ 65,942	$ 69,238	$ 59,949	$ 64,126

(b) The significant terms and conditions and interest rate ranges of applicable fixed-term portfolio investments gross of provisions, are as follows:

2006	Carrying value – Term to maturity – 1 year or less	1–5 years	Over 5 years	Total	Principal amount	Effective interest rate ranges
Short-term bonds	$ 1,762	$ –	$ –	$ 1,762	$ 1,467	2.7%-5.3%
Bonds	1,883	10,110	32,060	44,053	46,296	2.1%-16.8%
Mortgage loans	1,040	4,768	7,939	13,747	13,519	3.8%-13.1%
	$ 4,685	$ 14,878	$ 39,999	$ 59,562	$ 61,282	

2005	Carrying value – Term to maturity – 1 year or less	1–5 years	Over 5 years	Total	Principal amount	Effective interest rate ranges
Short-term bonds	$ 881	$ –	$ –	$ 881	$ 878	1.0%-3.5%
Bonds	1,215	10,593	29,307	41,115	44,162	0.3%-16.8%
Mortgage loans	113	4,956	7,818	12,887	12,629	3.0%-13.5%
	$ 2,209	$ 15,549	$ 37,125	$ 54,883	$ 57,669	

(c) Included in portfolio investments are the following:

(i) Non-performing loans:

	2006	2005
Bonds	$ 38	$ 54
Mortgage loans	13	4
Foreclosed real estate	–	6
	$ 51	$ 64

Non-performing loans include non-accrual loans and foreclosed real estate held for sale. Bond and mortgage investments are reviewed on a loan by loan basis to determine non-performing status. Loans are classified as non-accrual when:

(1) payments are 90 days or more in arrears, except in those cases where, in the opinion of management, there is justification to continue to accrue interest; or

(2) the Company no longer has reasonable assurance of timely collection of the full amount of the principal and interest due; or

(3) modified/restructured loans are not performing in accordance with the contract.

Where appropriate, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value.

(ii) Allowance for credit losses:

	2006	2005
Bonds & mortgage loans	$ 24	$ 43

(iii) Changes in the allowance for credit losses are as follows:

	2006	2005
Balance, beginning of year	$ 43	$ 123
Net recovery of credit losses – in year	(13)	(22)
Write-offs, net of recoveries	(5)	(59)
Other (including foreign exchange rate changes)	(1)	1
Balance, end of year	$ 24	$ 43

The allowance for credit losses is supplemented by the provision for future credit losses included in actuarial liabilities.

(d) Also included in portfolio investments are modified/restructured loans of $5 ($16 in 2005) that are performing in accordance with their current terms.

3. Portfolio Investments (cont'd)

(e) Net investment income is comprised of the following:

2006	Investment income earned	Amortization of net realized and unrealized gains	Recovery of credit losses	Investment expenses	Net investment income
Bonds	$ 2,728	$ 227	$ 13	$ –	$ 2,968
Mortgage loans	783	35	–	–	818
Stocks	188	251	–	–	439
Real estate	100	64	–	–	164
Other	195	–	–	(50)	145
	$ 3,994	$ 577	$ 13	$ (50)	$ 4,534

2005	Investment income earned	Amortization of net realized and unrealized gains	Recovery of credit losses	Investment expenses	Net investment income
Bonds	$ 2,249	$ 220	$ 20	$ –	$ 2,489
Mortgage loans	787	41	2	–	830
Stocks	173	217	–	–	390
Real estate	112	45	–	–	157
Other	165	–	–	(40)	125
	$ 3,486	$ 523	$ 22	$ (40)	$ 3,991

(f) The balance of deferred net realized gains is comprised of the following:

2006	Participating surplus and liabilities	Non-participating		
		Liabilities	Capital and surplus	Total
Bonds	$ 550	$ 1,571	$ (217)	$ 1,904
Mortgage loans	23	99	1	123
Stocks	343	52	50	445
Real estate	114	37	32	183
	$ 1,030	$ 1,759	$ (134)	$ 2,655

2005	Participating surplus and liabilities	Non-participating		
		Liabilities	Capital and surplus	Total
Bonds	$ 555	$ 1,146	$ 39	$ 1,740
Mortgage loans	21	91	6	118
Stocks	277	26	78	381
Real estate	98	32	32	162
	$ 951	$ 1,295	$ 155	$ 2,401

4. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $5 ($7 in 2005), all of which is in respect of derivative transactions.

5. Goodwill and Intangible Assets

(a) Goodwill

The carrying value of goodwill, all in the shareholder account, and changes in carrying value of goodwill are as follows:

	2006	2005
Balance, beginning of year	$ 5,248	$ 5,248
Other acquisitions by subsidiaries	2	–
Balance, end of year	$ 5,250	$ 5,248

Canada Life paid additional consideration, based on certain performance targets achieved in 2006, for an investment subsidiary first acquired in 2003. This has resulted in goodwill of $2.

(b) Intangible Assets

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

	2006			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 410	$ –	$ 1	$ 411
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future participating account profits	354	–	–	354
	1,118	–	1	1,119
Finite life intangible assets				
– Customer contract related	283	(49)	–	234
– Distribution channels	127	(12)	(1)	114
	410	(61)	(1)	348
Total	$ 1,528	$ (61)	$ –	$ 1,467

	2005			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 410	$ –	$ (16)	$ 394
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future participating account profits	354	–	–	354
	1,118	–	(16)	1,102
Finite life intangible assets				
– Customer contract related	281	(35)	(2)	244
– Distribution channels	127	(8)	(12)	107
	408	(43)	(14)	351
Total	$ 1,526	$ (43)	$ (30)	$ 1,453

6. Other Assets

Other assets consist of the following:

	2006	2005
Premiums in course of collection	$ 402	$ 472
Interest due and accrued	814	717
Future income taxes (note 18)	184	186
Fixed assets	159	161
Prepaid expenses	63	75
Accounts receivable	548	545
Accrued benefits asset (note 16)	171	181
Other	6	21
	$ 2,347	$ 2,358

7. Actuarial Liabilities

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

	Participating		Non-participating		Total	
	2006	2005	2006	2005	2006	2005
Group Insurance	$ –	$ –	$ 2,831	$ 1,411	$ 2,831	$ 1,411
Individual Insurance & Investment Products	17,573	16,622	14,417	14,535	31,990	31,157
Europe/Reinsurance	1,853	1,677	29,866	16,193	31,719	17,870
Corporate	245	227	637	734	882	961
Total	$ 19,671	$ 18,526	$ 47,751	$ 32,873	$ 67,422	$ 51,399

7. Actuarial Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and surplus are as follows:

2006	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 9,292	$ 4,891	$ 2,313	$ 112	$ 3,063	$ 19,671
Non-participating						
Group Insurance	1,499	879	56	–	397	2,831
Individual Insurance & Investment Products	9,484	3,783	624	7	519	14,417
Europe/Reinsurance	14,353	1,449	236	1,163	12,665	29,866
Corporate	365	111	–	–	161	637
Other liabilities	6,700	2,358	743	267	3,040	13,108
Participating account surplus	1,396	145	3	22	113	1,679
Capital and surplus	2,714	119	360	498	6,755	10,446
Total carrying value	$ 45,803	$ 13,735	$ 4,335	$ 2,069	$ 26,713	$ 92,655
Fair value	$ 47,388	$ 14,210	$ 5,128	$ 2,512	$ 26,713	$ 95,951

2005	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 9,157	$ 4,601	$ 1,685	$ 110	$ 2,973	$ 18,526
Non-participating						
Group Insurance	891	356	25	–	139	1,411
Individual Insurance & Investment Products	9,456	4,223	561	8	287	14,535
Europe/Reinsurance	11,363	660	162	669	3,339	16,193
Corporate	477	156	6	–	95	734
Other liabilities	7,804	2,848	626	420	3,069	14,767
Participating account surplus	1,389	19	2	18	120	1,548
Capital and surplus	1,428	12	348	469	6,670	8,927
Total carrying value	$ 41,965	$ 12,875	$ 3,415	$ 1,694	$ 16,692	$ 76,641
Fair value	$ 44,592	$ 13,550	$ 4,024	$ 1,960	$ 16,692	$ 80,818

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(b) Changes in Actuarial Liabilities

The change in actuarial liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating		Non-participating		Total	
	2006	2005	2006	2005	2006	2005
Balance, beginning of year	$ 18,526	$ 17,639	$ 32,873	$ 28,407	$ 51,399	$ 46,046
Impact of new business	7	4	2,600	2,951	2,607	2,955
Normal change in force	896	1,059	(2,319)	(1,411)	(1,423)	(352)
Impact of assumption changes	66	60	(102)	44	(36)	104
Business movement from/to affiliates	–	–	–	(240)	–	(240)
Business movement from/to external parties	–	–	11,970	4,803	11,970	4,803
Impact of foreign exchange rate changes	176	(236)	2,729	(1,681)	2,905	(1,917)
Balance, end of year	$ 19,671	$ 18,526	$ 47,751	$ 32,873	$ 67,422	$ 51,399

In 2006 the acquisition of a large block of annuity business in the United Kingdom was the major contributor to the growth in actuarial liabilities.

Non-participating actuarial liabilities decreased by $102 in 2006 due to assumption changes. This decrease was primarily due to improvements in mortality ($72 decrease), improvements in morbidity ($63 decrease), and improvement in expenses ($62 decrease) partially offset by strengthened provisions for asset liability matching (increase of $88) and an increase required in the adverse development reserve provisions in London Reinsurance Group Inc. (LRG) (increase of $21).

Participating actuarial liabilities increased by $66 in 2006 due to assumption changes. This increase was primarily due to an increase in the provision for future policyholder dividends ($170) partially offset by improved investment assumptions ($60 decrease), improved life mortality ($18 decrease) and improved expenses ($18 decrease).

In 2005 the acquisition of a large block of annuity business in the United Kingdom was the major contributor to the growth in actuarial liabilities.

Non-participating actuarial liabilities increased by $44 in 2005 due to assumption changes. This increase was primarily due to strengthened mortality assumptions ($176 increase), and increased litigation reserves ($33) partially offset by improvements in asset liability matching ($103 decrease) and improvements in modeling ($67 decrease).

Participating actuarial liabilities increased by $60 in 2005 due to assumption changes. This increase was primarily due to lower investment returns ($135 increase) and a reclassification between provisions for dividends and actuarial liabilities for Canada Life ($62 increase) partially offset by improved mortality ($61 decrease) and reduced expenses ($61 decrease).

(c) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $59.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $82.

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption a 1% adverse change in the best estimate assumptions would increase non-participating actuarial liabilities by approximately $44.

Property and Casualty Reinsurance – Actuarial liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment Returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate 1% increase or an immediate 1% decrease in the level of interest rates. These interest rate changes will impact the projected cash flows. The effect of an immediate 1% increase in interest rates would be to increase the present value of these projected cash flows by approximately $79 and the effect of an immediate 1% decrease in interest rates would be to decrease the present value of these net projected cash flows by approximately $247. The level of actuarial liabilities established under CALM provides for interest rate movements significantly greater than the 1% shifts shown above.

A 10% increase in equity markets would be expected to decrease non-participating actuarial liabilities by approximately $4, primarily as a result of equities backing long-tail liabilities. A 10% decrease in equity markets would be expected to increase non-participating actuarial liabilities by approximately $4, primarily as a result of equities backing long-tail liabilities.

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. A 10% increase in the best estimate maintenance unit expense assumption Company wide would increase the non-participating actuarial liabilities by approximately $125.

7. Actuarial Liabilities (cont'd)

Policy Termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $240.

Policyholder Dividends – Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is our expectation that associated with changes in the best estimate assumptions for participating business would be corresponding changes in policyholder dividend scales, resulting in an immaterial net change in actuarial liabilities for participating business.

(d) Risk Management

(i) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(ii) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged .15% (.19% in 2005). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2006	2005
Participating	$ 414	$ 536
Non-participating	754	516
	$ 1,168	$ 1,052

(iii) Reinsurance risk

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	2006	2005
Participating	$ 1,111	$ 1,100
Non-participating	7,776	9,666
	$ 8,887	$ 10,766

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 60% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

(e) Minimum Continuing Capital and Surplus Requirements

The Appointed Actuary reviews the calculation of the Company's Canadian Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio, which is calculated on its worldwide insurance operations. The MCCSR ratio at December 31, 2006, was well in excess of the minimum requirement. In addition, foreign operations and foreign subsidiaries of the Company must comply with local capital requirements in each of the jurisdictions in which they operate. These regulatory requirements constrain the Company's ability to distribute its accumulated surplus.

8. Financing Charges

Financing charges consist of the following:

	2006	2005
Interest on long-term debentures and other debt instruments	$ 39	$ 41
Preferred share dividends	–	5
Interest on capital trust debentures	49	49
Other	2	–
Distributions on capital trust securities held by consolidated group as temporary investments	(12)	(12)
Total	$ 78	$ 83

9. Debentures and Other Debt Instruments

(a) Debentures and other debt instruments consist of the following:

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Short term				
Revolving credit in respect of reinsurance business with interest rates of 6.0% (5.0% to 5.2% in 2005) maturing within one year	$ 1	$ 1	$ 14	$ 14
Long term				
Operating:				
Notes payable with interest of 8.0%	8	8	9	9
Capital:				
Great-West				
6.74% debentures due November 24, 2036, unsecured (note 17)	200	200	200	200
Canada Life				
Subordinated debentures due September 19, 2011 bearing a fixed rate of 8% until 2006 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	–	–	250	257
Subordinated debentures due December 11, 2013 bearing a fixed rate of 5.8% until 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	200	205	200	208
6.40% subordinated debentures due December 11, 2028, unsecured	100	117	100	119
Acquisition related fair market value adjustment	5	–	13	–
	305	322	563	584
	505	522	763	784
Total long term	513	530	772	793
Total debentures and other debt instruments	$ 514	$ 531	$ 786	$ 807

On September 19, 2006 Canada Life repaid the $250 principal of the 8% subordinated debentures.

(b) Principal repayments of long term debt instruments

	Operating	Capital	Total
2007	$ 1	$ –	$ 1
2008	1	–	1
2009	1	–	1
2010	1	–	1
2011	1	–	1
2012 and thereafter	3	500	503
	$ 8	$ 500	$ 508

10. Other Liabilities

Other liabilities consist of the following:

	2006	2005
Current income taxes	$ 284	$ 427
Accounts payable	319	428
Accrued benefits liability (note 16)	410	397
Bank overdraft	288	282
Future income taxes (note 18)	358	306
Other	1,295	1,145
	$ 2,954	$ 2,985

11. Non-controlling Interests

	2006	2005
Perpetual preferred shares issued by subsidiaries:		
Classifed as non-controlling interests		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	9	12
	$ 154	$ 157

On June 29, 2005, London Life purchased for cancellation its 8,000,000 Series C, 4.90% Non-Cumulative First Preferred Shares at a price of $221 or $27.68 per share from Lifeco. Lifeco invested the $221 proceeds in common shares of the Company (see note 14). The premium of $21 or $2.68 per share was recorded as a charge to shareholder surplus.

12. Capital Trust Securities and Debentures

	2006	2005
Capital trust debentures:		
5.995% Senior Debentures due December 31, 2052, unsecured (GWLCT)	$ 350	$ 350
6.679% Senior Debentures due June 30, 2052, unsecured (CLCT)	300	300
7.529% Senior Debentures due June 30, 2052, unsecured (CLCT)	150	150
	800	800
Acquisition related fair market value adjustment	31	34
Trust securities held by consolidated group as temporary investments	(185)	(186)
Total	$ 646	$ 648

Great-West Life Capital Trust (GWLCT), a trust established by the Company, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summary of Consolidated Operations (see note 8).

13. Participating Account

The Company controls a 100% equity interest in London Life and Canada Life at December 31, 2006 and December 31, 2005. The participating account operations and the participating account balance sheets are presented as combined or consolidated in the operations in the Company's financial statements. The following tables provide additional information related to the operations and financial position of each entity.

(a) Net income, participating account

	2006	2005
Net income attributable to participating account before policyholder dividends		
Great-West Life	$ 102	$ 110
London Life	698	620
Canada Life	192	128
Policyholder dividends		
Great-West Life	(104)	(98)
London Life	(572)	(548)
Canada Life	(184)	(118)
Net income – participating account	$ 132	$ 94

(b) Participating account surplus

	2006	2005
(i) Participating account accumulated surplus		
Great-West Life	$ 370	$ 372
London Life	1,293	1,167
Canada Life	33	25
	1,696	1,564
(ii) Currency translation account		
Great-West Life	–	–
London Life	(18)	(16)
Canada Life	2	–
	(16)	(16)
	$ 1,680	$ 1,548

During 2005, following OSFI approval, $2 of seed capital related to the Bahamas open block of the Canada Life participating account was transferred from the participating account to the shareholder account. The repatriation resulted in an increase in shareholder surplus of $2 and a decrease in participating account surplus of $2.

14. Share Capital

Authorized:
Unlimited Preferred Shares

Unlimited Common Shares

	2006		2005	
	Number	Stated value	Number	Stated value
Issued and outstanding:				
Preferred shares:				
Series L, 5.20% Non-Cumulative Preferred Shares	2,093,032	$ 52	2,093,032	$ 52
Series O, 5.55% Non-Cumulative Preferred Shares	6,278,671	157	6,278,671	157
Series Q, 5.00% Non-Cumulative Preferred Shares	40,000	1	40,000	1
Balance, end of year	8,411,703	$ 210	8,411,703	$ 210
Common shares:				
Balance, beginning of year	2,088,655	$ 6,116	2,059,557	$ 5,895
Issued to parent	–	–	29,098	221
Balance, end of year	2,088,655	$ 6,116	2,088,655	$ 6,116
Total share capital		$ 6,326		$ 6,326

Preferred shares

The Series L, 5.20% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share and are convertible to Series M Preferred Shares at the option of the holder, in each case on October 31, 2007 and on October 31 in every fifth year thereafter, subject to the requisite statutory approval.

The Series O, 5.55% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share and are convertible into Series P Preferred Shares at the option of the holder on October 31, 2010 and on October 31 in every fifth year thereafter, subject to the requisite statutory approval.

The Series Q, 5.00% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share on the later of December 31, 2007 and the date on which there are no Great-West Life Capital Trust Securities outstanding in GWLCT, subject to regulatory approval.

Common shares

On June 29, 2005, the Company issued 29,098 common shares to Lifeco for a value of $221.

15. Stock Based Compensation

Lifeco has a stock option plan (the Lifeco stock option plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Great-West Life and its affiliates. Lifeco's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

15. Stock Based Compensation (cont'd)

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. In two of these categories the financial targets have been attained. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 37,000,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2006		2005	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of year	**12,637,782**	**$ 17.41**	11,629,772	$ 13.22
Granted	**50,000**	**28.36**	2,330,000	29.77
Exercised	**(1,340,250)**	**9.47**	(1,312,390)	8.16
Forfeited	**(257,200)**	**25.15**	(9,600)	17.14
Outstanding, end of year	**11,090,332**	**$ 18.23**	12,637,782	$ 17.41
Options exercisable at year-end	**8,536,799**	**$ 15.60**	7,879,615	$ 13.48

The weighted average fair value of options granted during 2006 was $5.48 per option ($6.04 per option granted during 2005). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2006 and 2005 respectively: dividend yield 3.16% (2.94%), expected volatility 19.94% (21.15%), risk-free interest rate 4.36% (4.0%), and expected life of 7 years (7 years).

In accordance with the fair value based method of accounting, compensation expense of $7 after tax in 2006 ($4 in 2005) has been recognized in the Summary of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2006:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$8.12 – $8.38	188,832	0.51	8.13	188,832	8.13	2007
$11.14	1,239,000	1.30	11.14	1,239,000	11.14	2008
$13.63	207,000	2.24	13.63	207,000	13.63	2009
$11.14 – $16.48	3,808,000	3.55	13.14	3,808,000	13.14	2010
$17.14	772,500	4.92	17.14	772,500	17.14	2011
$19.42	2,096,000	6.52	19.42	1,504,667	19.42	2013
$24.37 – $25.12	569,000	7.34	25.01	384,800	25.05	2014
$29.84	2,160,000	8.95	29.84	432,000	29.84	2015
$28.36	50,000	9.41	28.36	–	–	2016

16. Pension Plans and Other Post Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain of its employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain of its employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or on a guaranteed basis. Effective 2006, the determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans, resulting in a negative past service cost. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings. In 2005, the terms of the

Canadian post-retirement health, dental and life insurance plans were amended. The amendment reduced the level of post-retirement benefits to be provided to certain active employees and revised the eligibility requirements for receiving benefits for certain other active employees. This resulted in the establishment of a negative past service cost which is being amortized over the average remaining service lives of these certain active employees. In 2005, a curtailment was recognized to reflect the impact of the changes in the Canadian plans' eligibility requirements. Effective January 1, 2005, the U.S. post-retirement defined benefits plan was fully settled.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, a related proposed class action proceeding has been commenced in Ontario related to one of the partial windups. Based on information presently known, due to the significant uncertainty with regard to the issues, no reasonable estimate of the outcome can be made. Accordingly, the Company's subsidiaries have not established a provision for these matters. It is not expected that these matters will have a material adverse effect on the consolidated financial position of the Company.

The following tables reflect the financial position of the Company's contributory and non-contributory defined benefit plans at December 31, 2006 and 2005.

(a) Costs Recognized

	All pension plans		Other post-retirement benefits	
	2006	2005	2006	2005
Amounts arising from events in the period				
Defined benefit service cost	$ 75	$ 70	$ 4	$ 13
Defined contribution service cost	–	1	–	–
Employee contributions	(11)	(10)	–	–
Employer service cost	64	61	4	13
Past service costs	(161)	–	–	(61)
Interest cost on the accrued benefit obligation	136	141	19	26
Actual return on plan assets	(315)	(325)	–	–
Actuarial (gain) loss on accrued benefit obligation	41	196	(14)	82
Curtailment gain	(1)	–	–	(6)
Settlement loss	3	4	–	–
Cost incurred	(233)	77	9	54
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	157	164	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	(38)	(194)	19	(79)
Amortization of transitional obligations	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	164	3	(6)	61
Decrease in valuation allowance	(2)	(11)	–	–
Net benefit cost recognized for the period	$ 49	$ 40	$ 22	$ 36

(b) Status

	Defined benefits pension plans		Other post-retirement benefits	
	2006	2005	2006	2005
Fair value of plan assets	$ 2,918	$ 2,654	$ –	$ –
Accrued benefit obligation	(2,625)	(2,620)	(368)	(374)
Funded status	293	34	(368)	(374)
Employer contributions after the measurement date	4	2	1	1
Unamortized past service costs	(152)	14	(54)	(61)
Unamortized net losses	29	142	59	78
Unamortized transitional obligation	4	5	–	–
Valuation allowance	(55)	(57)	–	–
Accrued benefit asset (liability)	$ 123	$ 140	$ (362)	$ (356)
Recorded in:				
Other assets	$ 171	$ 181	$ –	$ –
Other liabilities	(48)	(41)	(362)	(356)
Accrued benefit asset (liability)	$ 123	$ 140	$ (362)	$ (356)

16. Pension Plans and Other Post Retirement Benefits (cont'd)

(c) Plans with Accrued Benefit Obligations in Excess of Plan Assets

	Defined benefits pension plans		Other post-retirement benefits	
	2006	2005	2006	2005
Plans with plan assets				
Fair value of plan assets	$ 384	$ 1,574		
Accrued benefit obligation	(506)	(1,752)		
Plan deficit	$ (122)	$ (178)		
Plans without plan assets				
Fair value of plan assets	$ –	$ –	$ –	$ –
Accrued benefit obligation	(137)	(141)	(368)	(374)
Plan deficit	$ (137)	$ (141)	$ (368)	$ (374)

The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

(d) Measurement and Valuation

Measurement date is November 30. The dates of the actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans
December 31, 2003	29%
April 1, 2004	5%
December 31, 2004	38%
December 31, 2005	28%

Next required valuation	% of plans
December 31, 2006	22%
April 1, 2007	5%
December 31, 2007	52%
December 31, 2008	21%

The fair value of assets is used to determine the expected return on assets.

(e) Cash Payments

	All pension plans		Other post-retirement benefits	
	2006	2005	2006	2005
Contributions – Funded defined benefit plans	$ 39	$ 27	$ –	$ –
– Funded defined contribution plans	–	1	–	–
Benefits paid for unfunded plans	4	5	16	24
Total cash payment	$ 43	$ 33	$ 16	$ 24

(f) Reconciliations

	Defined benefits pension plans		Other post–retirement benefits	
	2006	2005	2006	2005
(i) Accrued benefit obligation, beginning of year	$ 2,620	$ 2,390	$ 374	$ 419
Adjustment to opening balance	–	1	–	–
Employer current service cost	64	60	4	13
Employee contributions	11	10	–	–
Interest on accrued benefit obligation	136	141	19	26
Actuarial (gains) losses	41	196	(14)	82
Benefits paid	(122)	(113)	(15)	(15)
Past service costs	(161)	–	–	(61)
Curtailment	(1)	–	–	(81)
Settlement	(15)	(14)	–	(9)
Foreign exchange rate changes	52	(51)	–	–
Accrued benefit obligation, end of year	$ 2,625	$ 2,620	$ 368	$ 374

	Defined benefits pension plans		Other post-retirement benefits	
	2006	2005	2006	2005
(ii) Fair value of assets, beginning of year	$ 2,654	$ 2,452	$ –	$ –
Adjustment to opening balance	–	2	–	–
Employee contributions	11	10	–	–
Employer contributions	40	31	15	24
Return on plan assets	315	325	–	–
Benefits paid	(122)	(113)	(15)	(15)
Settlement	(18)	(18)	–	(9)
Foreign exchange rate changes	38	(35)	–	–
Fair value of assets, end of year	$ 2,918	$ 2,654	$ –	$ –

(g) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2006	2005
Equity securities	49%	49%
Debt securities	38%	38%
Real estate	5%	5%
All other assets	8%	8%
	100%	100%

No plan assets are directly invested in the Company's, or related parties', securities. Nominal amounts may be invested in the Company's, or related parties', securities through investments in pooled funds.

(h) Significant Assumptions

	Defined benefits pension plans		Other post-retirement benefits	
	2006	2005	2006	2005
Weighted average assumptions used to determine benefit cost				
Discount rate	5.19%	5.92%	5.23%	6.25%
Expected long-term rate of return on plan assets	6.02%	6.72%	–	–
Rate of compensation increase	4.30%	4.99%	4.31%	5.01%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	5.02%	5.19%	4.99%	5.23%
Rate of compensation increase	4.22%	4.30%	4.22%	4.31%

Weighted average health care trend rates

In determining the expected cost of health care benefits, health care costs were assumed to increase at the initial trend rate which would gradually decrease to an ultimate trend rate.

	2006	2005
Initial health care trend rate	6.50%	7.17%
Ultimate health care trend rate	4.70%	4.73%
Initial year	2007	2005
Year ultimate trend rate is reached	2011	2010

(i) Impact of Changes to Assumed Health Care Rates – Other Post-Retirement Benefits

	Impact on end of year accrued post-retirement benefit obligation		Impact on post-retirement benefit service and interest cost	
	2006	2005	2006	2005
1% increase in assumed health care cost trend rate	$ 40	$ 41	$ 3	$ 8
1% decrease in assumed health care cost trend rate	$ (32)	$ (34)	$ (2)	$ (6)

17. Related Party Transactions

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

During the year, the Company provided and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All services were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2006, 9,205,933 shares of IGM were held by the Company as an investment (9,206,243 in 2005). The fair value of the investment in IGM at December 31, 2006 is $452 ($425 in 2005). At December 31, 2006 the Company held $13 ($13 in 2005) principal amount of debentures issued by IGM.

17. Related Party Transactions (cont'd)

During 2006, the Company and segregated funds maintained by the Company purchased residential mortgages of $292 from IGM ($123 in 2005). The Company sold residential mortgages of $4 ($6 in 2005) to segregated funds maintained by the Company and $96 ($46 in 2005) to segregated funds maintained by London Life. London Life and Canada Life purchased commercial mortgages of $32 from segregated funds maintained by London Life. All transactions were at market terms and conditions.

The Company has 6.74% Debentures due to Lifeco, its parent, which have an outstanding balance of $200 ($200 in 2005). Financing charges of $13 is included in the Summary of Consolidated Operations ($13 in 2005).

During 2005, London Life purchased for cancellation its Series C, 4.90% Non-Cumulative First Preferred Shares, from Lifeco. The redemption premium of $21 was recorded as a charge to shareholder surplus. Interest expenses of $5 in 2005 on these preferred shares is included in the financial statements.

On December 30, 2005, the Company and Great-West Life & Annuity Insurance Company of South Carolina (GWSC), a subsidiary of Great-West Life & Annuity Insurance Company (GWL&A), an affiliate, entered into an Indemnity Reinsurance Agreement pursuant to which the Company retroceded on a coinsurance basis with funds withheld, certain of its U.S. term life reinsurance business. The ceded premiums of $202 associated with this transaction have been recorded in the Summary of Consolidated Operations as a reduction to premium income with a corresponding reduction to the change in actuarial liabilities. For the Consolidated Balance Sheet, this transaction resulted in the reduction of actuarial liabilities of $195 and a corresponding increase in funds held under reinsurance contracts. The transaction was at market terms and conditions.

During 2005, Canada Life transferred $615 of invested assets to GWL&A, an affiliated company, under an existing co-insurance agreement. The transfer resulted in a corresponding decrease in funds held under reinsurance contracts.

The Company has notes receivable from GWL&A which have an outstanding balance of $3 ($52 in 2005). $3 ($23 in 2005) is due on demand and non-interest bearing at December 31, 2006 and 2005. During 2006, GWL&A repaid the $29 principal amount of 5.4% notes receivable to the Company. The Company has non-interest bearing notes payable due to GWL&A which have an outstanding balance of $11 at December 31, 2006.

18. Income Taxes

(a) Future income taxes consist of the following taxable temporary differences on:

	2006	2005
Policy liabilities	$ 441	$ 557
Portfolio investments	(258)	(338)
Other	(357)	(339)
Future income taxes receivable (payable)	$ (174)	$ (120)
Recorded in:		
Other assets	$ 184	$ 186
Other liabilities	(358)	(306)
	$ (174)	$ (120)

(b) The Company's effective income tax rate is derived as follows:

	2006	2005
Combined basic Canadian federal and provincial tax rate	35.0%	35.5%
Increase (decrease) in the income tax rate resulting from:		
Non-taxable investment income	(5.7)	(7.7)
Lower effective tax rates on income not subject to tax in Canada	(6.2)	(6.9)
Large corporations tax	–	0.3
Miscellaneous	(3.9)	(2.7)
Impact of rate changes on future income taxes	(0.8)	–
Effective income tax rate applicable to current year	18.4%	18.5 %

The effective income tax rate reflects the impact of the reduction in Canadian Federal and Provincial income taxes.

At December 31, 2006, the Company had tax loss carryforwards, primarily in Canada, totalling $1,221 ($1,087 in 2005). The future tax benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $354 ($386 in 2005) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

19. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments that are not reported on the balance sheet. Contracts are either exchange traded or over-the-counter traded with counterparties that are highly rated financial institutions.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

2006	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 117	$ –	$ –	$ –	$ –
Futures – short	61	–	–	–	–
Interest rate swaps	1,448	106	7	113	34
Options purchased	624	62	9	71	14
	2,250	168	16	184	48
Foreign exchange contracts					
Forward contracts	1,024	3	10	13	3
Cross-currency swaps	4,311	437	282	719	142
	5,335	440	292	732	145
Other derivative contracts					
Equity contracts	177	12	9	21	4
Credit default swaps	88	–	–	–	2
	265	12	9	21	6
	$ 7,850	$ 620	$ 317	$ 937	$ 199

2005	Notional amount	Maximum credit risk	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ –	$ –	$ –	$ –	$ –
Futures – short	289	–	–	–	–
Interest rate swaps	1,273	108	5	113	34
Options purchased	547	72	8	80	15
	2,109	180	13	193	49
Foreign exchange contracts					
Forward contracts	775	11	8	19	4
Cross-currency swaps	3,805	534	251	785	159
	4,580	545	259	804	163
Other derivative contracts					
Equity contracts	321	7	17	24	5
Credit default swaps	88	1	7	8	1
	409	8	24	32	6
	$ 7,098	$ 733	$ 296	$ 1,029	$ 218

(b) The following table provides the use, notional amount and estimated fair value of the Company's derivative portfolio:

	Contracts held for asset/liability management				Contracts held for other purposes			
	Notional amount			Total	Notional amount			Total
2006	1 year or less	1–5 years	Over 5 years	estimated fair value	1 year or yess	1–5 years	Over 5 years	estimated fair value
Interest rate contracts								
Futures – long	$ 117	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures – short	61	–	–	–	–	–	–	–
Interest rate swaps	887	167	394	102	–	–	–	–
Options purchased	–	–	624	62	–	–	–	–
	1,065	167	1,018	164	–	–	–	–
Foreign exchange contracts								
Forward contracts	40	–	–	–	984	–	–	(47)
Cross-currency swaps	267	850	3,119	339	23	52	–	8
	307	850	3,119	339	1,007	52	–	(39)
Other derivative contracts								
Equity contracts	161	–	16	(5)	–	–	–	–
Credit default swaps	–	88	–	–	–	–	–	–
	161	88	16	(5)	–	–	–	–
	$ 1,533	$ 1,105	$ 4,153	$ 498	$ 1,007	$ 52	$ –	$ (39)

19. Derivative Financial Instruments (cont'd)

2005	Contracts held for asset/liability management: Notional amount: 1 year or less	1–5 years	Over 5 years	Total estimated fair value	Contracts held for other purposes: Notional amount: 1 year or yess	1–5 years	Over 5 years	Total estimated fair value
Interest rate contracts								
Futures – long	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Futures – short	289	–	–	–	–	–	–	–
Interest rate swaps	784	190	299	100	–	–	–	–
Options purchased	–	–	547	72	–	–	–	–
	1,073	190	846	172	–	–	–	–
Foreign exchange contracts								
Forward contracts	39	–	–	–	736	–	–	6
Cross-currency swaps	101	987	2,622	481	20	75	–	21
	140	987	2,622	481	756	75	–	27
Other derivative contracts								
Equity contracts	171	–	–	7	150	–	–	(4)
Credit default swaps	–	88	–	1	–	–	–	–
	171	88	–	8	150	–	–	(4)
	$ 1,384	$ 1,265	$ 3,468	$ 661	$ 906	$ 75	$ –	$ 23

(c) ***Interest Rate Contracts***

Interest rate swaps and options are used as a part of a portfolio of assets to manage interest rate risk associated with actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Interest income is adjusted to reflect the interest receivable and interest payable under the interest rate swaps. Realized gains and losses associated with these derivatives are deferred and amortized to net investment income.

Put options are purchased to protect against significant drops in equity markets. Premiums paid are amortized to net investment income over the life of the options. Gains and losses realized upon exercise of the options are recognized in net investment income.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with actuarial liabilities. Under these swaps principal amounts and fixed and floating interest payments may be exchanged in different currencies. The carrying value on the balance sheet is adjusted to reflect the amount of the currency swapped and interest income is adjusted to reflect the interest receivable and interest payable under the swaps. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of its foreign revenues as well as a portion of both operating results and net investment in its foreign operations. The realized and unrealized gains and losses on contracts for product liabilities are included in net investment income offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. The realized gains and losses on contracts related to revenues are recognized in net investment income. The gains and losses on contracts related to net investment in foreign operations are included in the cumulative translation account which is part of policyholder and shareholder equity. Hedge effectiveness is reviewed quarterly through critical terms matching and correlation testing.

Other Derivative Contracts

Equity index swaps and futures are used to hedge certain product liabilities and are marked to market with realized and unrealized gains and losses included in net investment income offsetting the respective realized and unrealized gains and losses on the underlying product liabilities and a corresponding market value adjustment in the amounts paid or credited to policyholders. Equity index swaps are also used as substitutes for cash instruments and are marked to market with realized and unrealized gains and losses included in net investment income.

In addition, equity index swaps are used to hedge the market risk associated with certain fee income. Realized gains and losses are recognized in fee income. Hedge effectiveness is reviewed quarterly through correlation testing.

The Company uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio. Unrealized gains and losses are deferred on the balance sheet and are recognized in net investment income in the period in which the underlying investment is recognized.

20. Acquisitions

(a) During the second quarter of 2006, Canada Life, through its wholly owned United Kingdom subsidiary, Canada Life Limited, reached an agreement to acquire the non-participating payout annuity business of The Equitable Life Assurance Society in the United Kingdom. Under the terms of the agreement, Canada Life Limited assumed this business on an indemnity reinsurance basis with an effective date of January 1, 2006. The transfer closed on February 9, 2007. The transaction resulted in an increase in funds held by ceding insurers and a corresponding increase in policyholder liabilities of $10.2 billion (£4.5 billion) on the consolidated balance sheet at December 31, 2006.

(b) On April 24, 2006, Crown Life Insurance Company (Crown Life) served notice, pursuant to the terms of the 1999 acquisition of the majority of the insurance operations of Crown Life by Canada Life, commencing a process under which Canada Life may be required to acquire the common shares of Crown Life. This transaction is expected to close in the second quarter of 2007 and is not expected to have a material impact on the financial position of the Company.

(c) During 2005, Canada Life, through its wholly owned United Kingdom subsidiary, Canada Life Limited, acquired the assets and liabilities associated with the in-force annuity in payment business of Phoenix and London Assurance Limited, part of the Resolution Life Group which is based in the United Kingdom. The transaction resulted in an increase in invested assets and a corresponding increase in policyholder liabilities of $4.4 billion on the consolidated balance sheet at December 31, 2005.

21. Contingent Liabilities

The Company and its subsidiaries are subject to legal actions, including arbitrations and proposed class actions, arising in the normal course of business. It is not expected that any of these legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, there are proposed class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating policyholder accounts in the financing of the acquisition of LIG in 1997 by Great-West Life. It is difficult to predict the outcome of these proceedings with certainty. However, based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, a related proposed class action proceeding has been commenced in Ontario related to one of the partial windups. Based on information presently known, due to the significant uncertainty with regard to the issues, no reasonable estimate of the outcome can be made. Accordingly, the Company's subsidiaries have not established a provision for these matters. It is not expected that these matters will have a material adverse effect on the consolidated financial position of the Company.

A subsidiary of the Company is involved in an ongoing arbitration relating to the interpretation of certain provisions of reinsurance treaties. In addition, certain reinsurance client loss statements relating to other reinsurance treaties are in dispute and may become subject to arbitration or other legal action in the future. While there is retrocession coverage in place for these other treaties, payment of amounts due under these retrocession treaties is contingent upon collection by the retrocessionaire under a separate financial arrangement with another party. We understand that the provisions of this separate financial arrangement are also in dispute. The Company's subsidiary has established an actuarial provision for these two matters. Based on information presently known, it is difficult to predict the outcome of these matters with certainty. These matters are not expected to have a material adverse effect on the consolidated financial position of the Company.

22. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $650 in letters of credit capacity. The facility was arranged in 2005 for a five year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued U.S. $620 in letters of credit under the facility as at December 31, 2006 ($611 as at December 31, 2005).

In addition, LRG has other bilateral letter of credit facilities totalling U.S. $18 (2005 – U.S. $18).

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $2 were outstanding at December 31, 2006 ($2 at December 31, 2005), none of which have been drawn upon at that date.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2007	2008	2009	2010	2011	2012 and thereafter	Total
Future lease payments	$ 62	$ 51	$ 38	$ 27	$ 19	$ 62	$ 259

23. Reinsurance Transaction

During 2006, Great-West Life and London Life recaptured 50% of a reinsurance agreement on certain blocks of group life and long term disability business. The recaptured premiums of $1,560 associated with the transaction have been recorded in the Summary of Consolidated Operations as an increase to premium income with a corresponding increase to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheet, this transaction resulted in a reduction of $1,671 to funds held under reinsurance contracts with a corresponding increase in policyholder liabilities.

24. Segmented Information

The major reportable segments are the participating and shareholder operations of the Company. The Company operates through Great-West Life and its wholly owned subsidiaries LIG and CLFC.

The major business units within the segments are:

Group Insurance	– life, health and disability insurance products for group clients.
Individual Insurance & Investment Products	– life insurance and disability insurance products for individual clients, and accumulation and payout annuity products for both group and individual clients.
Europe/Reinsurance	– life, health and disability insurance products for individual and group clients and accumulation and payout annuity products in the United Kingdom, Ireland and Germany, as well as life, property and casualty, accident and health and annuity.
Corporate	– business activities and operations that are not associated with the above business units.

(a) Consolidated Operations

	Shareholder					Participating account	
For the year ended December 31, 2006	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total	Total	Total company
Income:							
Premium income	$ 4,253	$ 2,048	$ 6,975	$ 29	$ 13,305	$ 1,983	$ 15,288
Net investment income	297	977	1,509	193	2,976	1,558	4,534
Fee and other income	126	725	609	47	1,507	1	1,508
Total income	4,676	3,750	9,093	269	17,788	3,542	21,330
Benefits and expenses:							
Paid or credited to policyholders	3,449	2,094	7,929	33	13,505	2,951	16,456
Other	751	874	613	115	2,353	409	2,762
Amortization of finite life intangible assets	–	–	4	14	18	–	18
Restructuring costs	–	–	–	–	–	–	–
Net operating income before income taxes	476	782	547	107	1,912	182	2,094
Income taxes	141	199	57	(62)	335	50	385
Net income before non-controlling interests	335	583	490	169	1,577	132	1,709
Non-controlling interests	–	–	–	7	7	–	7
Net income	335	583	490	162	1,570	132	1,702
Net income – participating account	–	–	–	–	–	132	132
Net income – shareholders	335	583	490	162	1,570	–	1,570
Perpetual preferred share dividends	–	–	–	11	11	–	11
Net income – common shareholder	$ 335	$ 583	$ 490	$ 151	$ 1,559	$ –	$ 1,559

For the year ended December 31, 2005	Shareholder: Group insurance	Shareholder: Individual insurance & investment products	Shareholder: Europe/ Reinsurance	Shareholder: Corporate	Shareholder: Total	Participating account: Total	Total company
Income:							
Premium income	$ 2,653	$ 1,691	$ 6,825	$ 35	$ 11,204	$ 1,950	$ 13,154
Net investment income	295	1,005	968	212	2,480	1,511	3,991
Fee and other income	123	620	481	33	1,257	–	1,257
Total income	3,071	3,316	8,274	280	14,941	3,461	18,402
Benefits and expenses:							
Paid or credited to policyholders	1,909	1,867	7,218	62	11,056	2,933	13,989
Other	757	750	617	119	2,243	382	2,625
Amortization of finite life intangible assets	–	–	4	14	18	–	18
Restructuring costs	–	–	–	22	22	–	22
Net operating income before income taxes	405	699	435	63	1,602	146	1,748
Income taxes	111	185	56	(81)	271	52	323
Net income before non-controlling interests	294	514	379	144	1,331	94	1,425
Non-controlling interests	–	–	–	7	7	–	7
Net income	294	514	379	137	1,324	94	1,418
Net income – participating account	–	–	–	–	–	94	94
Net income – shareholders	294	514	379	137	1,324	–	1,324
Perpetual preferred share dividends	–	–	–	11	11	–	11
Net income – commmon shareholder	$ 294	$ 514	$ 379	$ 126	$ 1,313	$ –	$ 1,313

(b) Consolidated total assets:

	2006 Shareholder	2006 Participating account	2006 Total	2005 Shareholder	2005 Participating account	2005 Total
Assets						
Invested assets	**$ 46,992**	**$ 24,228**	**$ 71,220**	$ 41,889	$ 23,137	$ 65,026
Goodwill and intangible assets	**6,717**	**–**	**6,717**	6,701	–	6,701
Other	**13,918**	**800**	**14,718**	4,200	714	4,914
Total assets	**$ 67,627**	**$ 25,028**	**$ 92,655**	$ 52,790	$ 23,851	$ 76,641
Segregated funds net assets			**71,288**			58,150
Total assets under administration			**$ 163,943**			$ 134,791

(c) Geographic distribution of total assests:

	2006 Income	2006 Assets	2005 Income	2005 Assets
Canada	**$ 11,829**	**$ 49,788**	$ 9,690	$ 48,962
International	**9,501**	**42,867**	8,712	27,679
	$ 21,330	**$ 92,655**	$ 18,402	$ 76,641

25. Subsequent Event

(a) On February 1, 2007, Lifeco announced that it had entered into agreements with Marsh & McLennan Companies, Inc. whereby Lifeco will acquire the asset management business of Putnam Investments Trust (Putnam), and Great-West Life will acquire Putnam's 25% interest in T.H. Lee Partners for approximately $410 (U.S. $350).

The transaction is expected to close in the second quarter of 2007, subject to regulatory approval and certain other conditions.

(b) Canada Life intends to recapture all of the U.S. life and annuity business that had been ceded to GWL&A in 2003 during 2007. This recapture transaction will result in an increase in acquired premiums with a corresponding change in actuarial liabilities on the Summary of Consolidated Operations when the transaction is finalized of approximately $2,194 (U.S. $1,875). This recapture transaction will result in an increase in cash and other assets of approximately $2,279 (U.S. $1,948), and a corresponding increase in policyholder liabilities of $2,279 (U.S. $1,948).

AUDITORS' REPORT

To the Policyholders and Shareholders,
The Great-West Life Assurance Company

We have audited the consolidated balance sheets of The Great-West Life Assurance Company and the statements of segregated funds consolidated net assets as at December 31, 2006 and 2005 and the summaries of consolidated operations, the consolidated statements of surplus, the consolidated statements of cash flows and the segregated funds consolidated statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2006 and 2005 and the results of its operations and its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 15, 2007

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholders and Directors of The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2006 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the result of the valuation.

D. Allen Loney
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba
February 15, 2007

PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This policyholder dividend policy has been established by the Board of Directors and is subject to change from time to time. It applies to participating insurance policies.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, asset defaults, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when establishing the guaranteed values associated with participating insurance policies. Great-West may distribute a portion of the earnings as declared by the Board of Directors in accordance with this policyholder dividend policy.

Participating insurance policies are eligible for a periodic policyholder dividend. The amount available for distribution from the participating account as policyholder dividends is determined at least annually following a review of the actual and expected experience of the participating account, taking into account significant changes in factors such as investment income, asset defaults, mortality, lapses, expenses and taxes. The amount available for distribution in any year will vary upwards or downwards depending on the actual and expected experience. The amount available is also influenced by considerations such as: the need to retain earnings as surplus to, among other purposes, ensure financial strength and stability, finance new business growth, provide for transitions during periods of major change and smooth fluctuations in experience; practical considerations and limits; legal requirements; and prevailing industry practices.

The amount available for distribution as policyholder dividends is divided among classes of policyholders by setting the policyholder dividend scale. Great-West follows the contribution principle when setting the policyholder dividend scale. This means the amount available for distribution as policyholder dividends is divided among classes of policyholders over the long term in proportion to their contribution to earnings. A contribution to earnings will be made from a particular class of policies to the extent that the experience for that particular class is different from the assumptions that were used when establishing the guaranteed values for that class.

When applying the contribution principle, attention is paid to ensuring reasonable equity is achieved between classes of policyholders and between generations of policyholders, taking into account practical considerations and limits, legal requirements and prevailing industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to earnings of those blocks.

Termination dividends are not payable under any participating insurance policies issued by Great-West.

The policyholder dividends are credited according to the terms of each policy.

Prior to the declaration of policyholder dividends by the Board, the actuary of the Company will confirm that: the proposed policyholder dividends are in accordance with this policyholder dividend policy and in compliance with applicable legislative and regulatory requirements; and applicable professional practice standards have been followed.

As permitted by the Insurance Companies Act, Great-West may distribute to the shareholders' account a percentage of the amount distributed to policyholders in respect of a financial year.

Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

Approved by the Board of Directors

October 28, 2004
Effective December 31, 2004

SOURCES OF EARNINGS

The following is provided in accordance with Guideline D-9 of the Office of the Superintendent of Financial Institutions Canada relating to Sources of Earnings (SOE) disclosure. SOE is not a Canadian generally accepted accounting principles (GAAP) measure and is unaudited. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of Canadian GAAP net income. It provides an analysis of the difference between actual net income and expected net income based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on Inforce Business

This component represents the portion of the consolidated net income on business in force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great West Life's sources of earnings are shown below for 2006 and 2005.

(in $ millions)

	Shareholder net income				
For the year ended December 31, 2006	**Group insurance**	**Individual insurance & investment products**	**Europe/ Reinsurance**	**Corporate**	**Total**
Expected profit on inforce business	$ 367	$ 388	$ 333	$ 29	$ 1,117
Impact of new business	–	(32)	49	–	17
Experience gains and losses	47	256	172	9	484
Management actions and changes in assumptions	62	170	(92)	4	144
Other	–	–	(7)	–	(7)
Earnings on surplus	–	–	92	65	157
Net income before tax	**476**	**782**	**547**	**107**	**1,912**
Taxes	(141)	(199)	(57)	62	(335)
Net income before non-controlling interests	**335**	**583**	**490**	**169**	**1,577**
Non-controlling interests	–	–	–	(7)	(7)
Perpetual preferred share dividends	–	–	–	(11)	(11)
Net income – common shareholder	**$ 335**	**$ 583**	**$ 490**	**$ 151**	**$ 1,559**

(in $ millions)

	Shareholder net income				
For the year ended December 31, 2005	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total
Expected profit on inforce business	$ 339	$ 387	$ 292	$ 5	$ 1,023
Impact of new business	–	(15)	(3)	–	(18)
Experience gains and losses	42	263	128	35	468
Management actions and changes in assumptions	24	64	(81)	3	10
Other	–	–	–	(23)	(23)
Earnings on surplus	–	–	99	43	142
Net income before tax	**405**	**699**	**435**	**63**	**1,602**
Taxes	(111)	(185)	(56)	81	(271)
Net income before non-controlling interests	**294**	**514**	**379**	**144**	**1,331**
Non-controlling interests	–	–	–	(7)	(7)
Perpetual preferred share dividends	–	–	–	(11)	(11)
Net income – common shareholder	**$ 294**	**$ 514**	**$ 379**	**$ 126**	**$ 1,313**

Analysis of Results

Expected profit on inforce business is the major driver of earnings and accounted for 58% of pre-tax earnings in 2006. The expected profit on inforce business of $1,117 million in 2006 was $94 million higher than the 2005 level. The increase in expected profit reflected business growth across the company.

New business issued in 2006 led to gains of $17 million at issue compared to losses of $18 million in 2005. The favourable change was largely due to action which reduced the strain on new business in the Life Reinsurance operations. Offsetting this was higher strain on the large volume of Canadian universal life business in 2006.

Experience gains and losses in 2005 and 2006 were primarily due to favourable mortality, morbidity, and investment experience in Canada and Europe.

In 2006 management actions and changes in assumptions contributed $144 million to pre-tax earnings, including $43 million due to a reduction in non-actuarial policy liabilities for Canada Group and $102 million due to changes in assumptions for actuarial liabilities. The most significant contributors to changes in assumptions for actuarial liabilities were $72 million due to mortality improvements, $63 million due to morbidity improvements, $62 million due to expense improvements, $(88) million due to strengthened provisions for asset liability matching, and $(21) million due to an increase in the adverse development reserve in London Reinsurance Group.

In 2005 management actions and changes in assumptions contributed $10 million to pre-tax earnings, including $40 million due to reserve aggregation benefits and $(44) million due to changes in assumptions for actuarial liabilities. The most significant contributors to changes in assumptions for actuarial liabilities were $103 million due to improvements in asset liability matching, $67 million due to improvements in modeling, $(176) million due to strengthened mortality assumptions, and $(33) million due to increased settlement reserves.

Earnings on surplus increased by $15 million in 2006 compared to 2005.

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY

December 31, 2006

Name	Principal Office Address	Carrying Value [1] ($ millions)	Voting Share Ownership (%)
Gold Circle Insurance Company	Winnipeg, Manitoba	3	100.0%
GWL Investment Management Ltd.	Winnipeg, Manitoba	1	100.0%
GWL Realty Advisors Inc.	Winnipeg, Manitoba	–	100.0%
CGWLL Inc.	Winnipeg, Manitoba	7	100.0%
London Insurance Group Inc.	London, Ontario	3,316	100.0%
Canada Life Financial Corporation	Toronto, Ontario	8,377	100.0%

(1) The carrying value of shares is shown at the Company's equity interest in the subsidiaries

FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)

	2006	2005	2004	2003	2002
At December 31					
Total assets under administration	$ 163,943	$ 134,791	$ 123,321	$ 115,609	$ 54,558
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	$ 15,288	$ 13,154	$ 12,543	$ 9,937	$ 8,198
Self-funded premium equivalents (ASO contracts)	2,145	1,955	1,863	1,675	1,355
Segregated funds deposits:					
Individual products	7,959	6,046	5,270	2,768	1,649
Group products	3,008	2,682	4,064	1,808	1,163
Total premiums and deposits	28,400	23,837	23,740	16,188	12,365
Bulk reinsurance – initial ceded premium	–	–	–	(6,279)	–
Net premiums and deposits	$ 28,400	$ 23,837	$ 23,740	$ 9,909	$ 12,365

Condensed Summary of Operations

	2006	2005	2004	2003	2002
Income					
Premium income	$ 15,288	$ 13,154	$ 12,543	$ 9,937	$ 8,198
Bulk reinsurance – initial ceded premium	–	–	–	(6,279)	–
	15,288	13,154	12,543	3,658	8,198
Net investment income	4,534	3,991	3,785	3,261	2,187
Fee and other income	1,508	1,257	1,084	660	420
Total income	21,330	18,402	17,412	7,579	10,805
Benefits and Expenses					
Paid or credited to policyholders	16,456	13,989	13,234	4,567	8,978
Other	2,762	2,625	2,621	1,886	1,155
Amortization of finite life intangible assets	18	18	18	7	–
Restructuring costs	–	22	42	26	–
Net operating income before income taxes	2,094	1,748	1,497	1,093	672
Income taxes	385	323	264	270	196
Net income before non-controlling interests	1,709	1,425	1,233	823	476
Non-controlling interests	7	7	7	3	1
Net income	1,702	1,418	1,226	820	475
Net income – participating account	132	94	107	97	–
Net income – shareholders	1,570	1,324	1,119	723	475
Preferred share dividends	11	11	11	11	14
Net income – common shareholder	$ 1,559	$ 1,313	$ 1,108	$ 712	$ 461
Earnings per common share	$ 746.64	$ 632.75	$ 544.90	$ 440.70	$ 376.97
Book value per common share	$ 4,827.00	$ 4,173.00	$ 3,958.00	$ 3,616.00	$ 1,659.00
Dividends to common shareholder – per share regular	$ 237.64	$ 290.00	$ 227.87	$ 199.70	$ 248.14
– per share special	$ –	$ –	$ –	$ –	$ 30.71

DIRECTORS AND OFFICERS

Board Of Directors

Robert Gratton [3, 4, 5, 6]

Chairman of the Board of the Company
Chairman, Power Financial Corporation

Gail S. Asper [1]

Corporate Secretary,
CanWest Global Communications Corporation

Orest T. Dackow [3, 4]

Corporate Director

André Desmarais, O.C. [3, 4, 5, 6]

President and Co-Chief Executive Officer,
Power Corporation of Canada

Deputy Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C. [3, 4, 5, 6]

Chairman and Co-Chief Executive Officer,
Power Corporation of Canada

Chairman of the Executive Committee,
Power Financial Corporation

Michael L. Hepher [1, 5]

Corporate Director

Daniel Johnson [3, 4, 5]

Of Counsel to McCarthy Tétrault LLP

Kevin P. Kavanagh, C.M. [2, 3, 6]

Corporate Director

Chancellor Emeritus, Brandon University

Peter Kruyt

Vice-President, Power Corporation of Canada

The Right Honourable
Donald F. Mazankowski, P.C., O.C., A.O.E [3, 4, 6]

Senior Advisor to
Gowling Lafleur Henderson LLP

William T. McCallum

Vice-Chairman,
Great-West Life & Annuity Insurance Company

Raymond L. McFeetors [3, 4]

President and Chief Executive Officer of the Company,
Great-West Lifeco Inc.,

London Life Insurance Company,

Canada Life Financial Corporation,

The Canada Life Assurance Company,

Great-West Life & Annuity Insurance Company

Jerry E.A. Nickerson [1]

Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2, 3, 4, 5, 6]

Corporate Director

R. Jeffrey Orr [3, 4, 5, 6]

President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA [1, 3, 4]

Vice-Chairman and Chief Financial Officer,
Power Corporation of Canada

Executive Vice-President and
Chief Financial Officer,
Power Financial Corporation

Guy St-Germain, C.M. [1, 3, 4]

President, Placements Laugerma Inc.

Dr. Emöke J.E. Szathmáry, C.M., Ph.D. [2]

President and Vice-Chancellor,
University of Manitoba

Murray J. Taylor

Co-President and Chief Executive Officer,
IGM Financial Inc.

President and Chief Executive Officer,
Investors Group Inc.

Gérard Veilleux, O.C. [1]

Vice-President, Power Corporation of Canada

1 member of the Audit Committee
2 member of the Conduct Review Committee
3 member of the Executive Committee
4 member of the Investment Committee
5 member of the Compensation Committee
6 member of the Governance and Nominating Committee

Executive Officers

Raymond L. McFeetors

President and Chief Executive Officer

William L. Acton

President and Chief Operating Officer,
Europe

Denis J. Devos

President and Chief Operating Officer,
Canada

Elwood C. Haas

Senior Vice-President and
Chief Internal Auditor

D. Allen Loney

Executive Vice-President, Chief
Actuary/Capital Management

William W. Lovatt

Executive Vice-President and
Chief Financial Officer

Peter G. Munro

Executive Vice-President and
Chief Investment Officer

Sheila A. Wagar

Senior Vice-President,
General Counsel and Secretary

POLICYHOLDER AND SHAREHOLDER INFORMATION

Head Office

100 Osborne Street North, Winnipeg, Manitoba R3C 3A5

Stock Exchange

Stock Exchange Listings Symbol: GWL.PR.L, GWL.PR.O

The Preferred Shares Series L and O are listed on the Toronto Stock Exchange.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Life is **Computershare Investor Services Inc.**

In Canada, the Non-Cumulative First Preferred Shares, Series L and O are transferable at the following locations:

100 University Avenue, 11th floor, Toronto, Ontario, M5J 1Y1

6th Floor, 530 8th Avenue S.W., Calgary, Alberta T2P 3S8

Dividends

The Preferred Shares Series L, O – Dividend record dates are usually between the 1st and 4th of January, April, July and October. Dividends are usually paid the last day of January, April, July and October.

The Preferred Shares Series Q – Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of March, June, September and December.

Financial Information

For financial information about Great-West Life, please contact the Chief Financial Officer at 204-946-7341.

For copies of the Annual or Quarterly Reports, please contact the Corporate Secretary's Office at 204-946-8366 or visit our website: **www.greatwestlife.com**

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THE
Great-West Life
ASSURANCE COMPANY

A member of the Power Financial Corporation group of companies.

E987(06LIFE)-3/07